6523.0 - Household Income and Wealth, Australia, 2013-14 Quality Declaration
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WEALTH OF LOW INCOME HOUSEHOLDS

Key points:

- In 2013-14, just over 4 million people lived in low income households – 830,000 were children under 15 years, 2 million were between 15 and 64 years, and 1.2 million were 65 years or older. These were households with a weekly equivalised disposable income of between $205 and $511, which is below one of the commonly used poverty lines, set at 60% of the median income for all households.
- Many low income households are at risk of experiencing financial hardship, particularly those with low levels of assets and/or high levels of debt. This article compares the economic circumstances of younger households (reference person under 65 years) and older households (couples and lone people 65 years and over) using different measurement approaches e.g. including imputed rent and social benefits in kind.
- A high proportion of younger low income households were at risk of experiencing economic hardship. Almost two-thirds (65%) had total wealth in the lowest two wealth quintiles, less than 20% owned their home outright and just over half (51%) had equivalised liquid assets worth less than $1,000.
- Older low income households, who owned their home and had savings, were at lower risk of hardship. Three-quarters (74%) of older low income households owned their home outright and one-third (31%) had more than $50,000 in equivalised liquid assets, such as bank deposits, shares, etc. However, almost one-third (31%) had less than $5,000 in equivalised liquid assets.

INTRODUCTION

The economic circumstances of people living in low income households are of concern as they are often at risk of experiencing financial hardship. As income is a major resource people rely on to meet their basic living costs, it is often used in analysis to identify people living in poverty.

Poverty measures are generally based on a percentage of the median income of the population as a whole. Two commonly used measures, in international poverty studies, are to identify people as living in poverty as households with income below either 50% or 60% of the median income for all households.

This article examines the characteristics and economic circumstances of people living in low income households, using data from the ABS Survey of Income and Housing (SIH) and the ABS Household Expenditure Survey (HES). The incomes of these 'low income households' fall below the 60% of median income for all households.

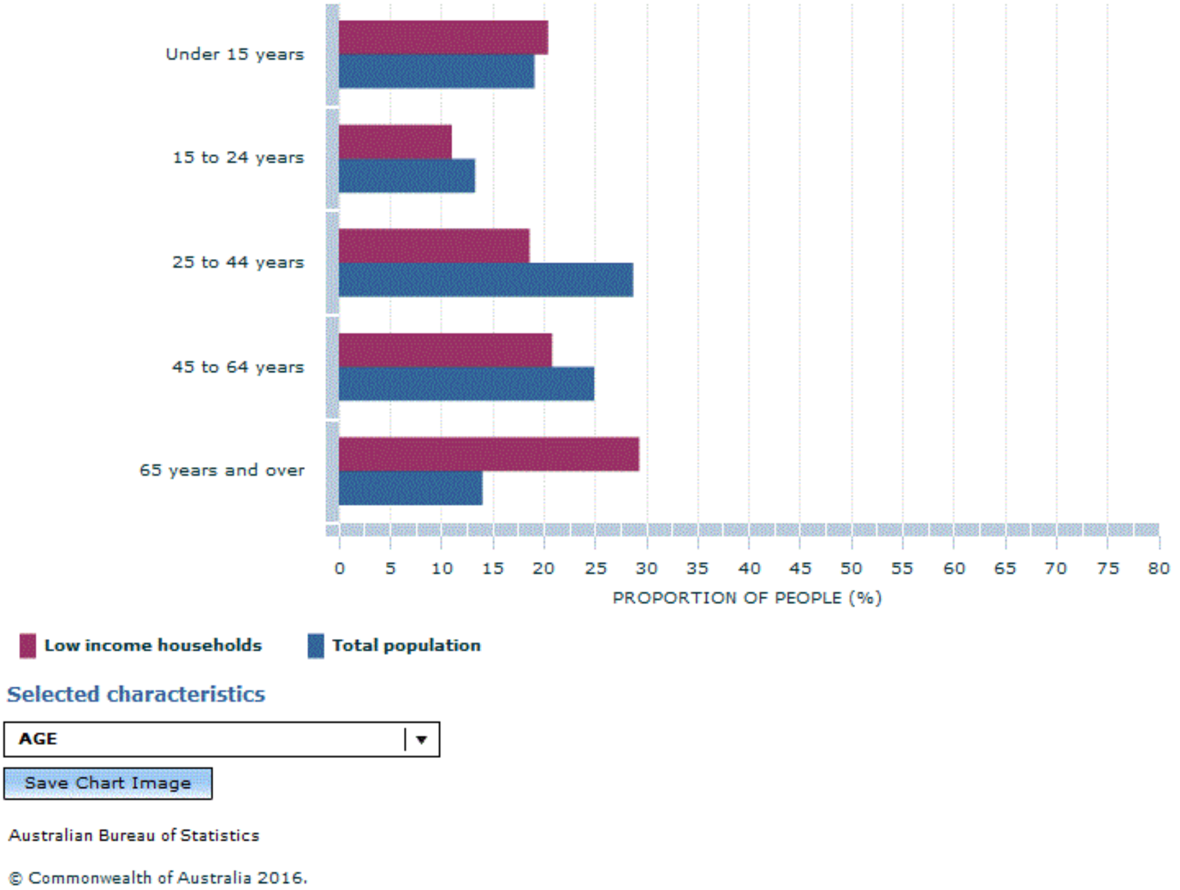
To account for differences in household size and composition, household income and wealth have both been equivalised in this analysis.

CHARACTERISTICS OF LOW INCOME HOUSEHOLDS

In 2013-14, there were just over four million people living in low income households. Approximately one-fifth (20%) were children under 15 years, half (50%) were between 15 and 64 years, and almost 30% were aged 65 and over. In comparison, people 65 years and over comprise 14% of the total population.

Government pensions and allowances were the main source of household income for two-thirds of people in low income households, with employee income the main source for 24%. About 40% lived in a household where at least one person was employed, while almost half (49%) lived in a household with no-one in the labour force (Graph 1).

Graph 1 PROPORTION OF PEOPLE, Selected characteristics, 2013-14



Source(s): *ABS Survey of Income and Housing*

Source(s): ABS Survey of Income and Housing

ECONOMIC WELLBEING

Key factors which affect people's material standard of living (or economic wellbeing) are their income, consumption and wealth (assets net of liabilities). Younger households, for example, may have higher consumption when establishing their first home or raising children.

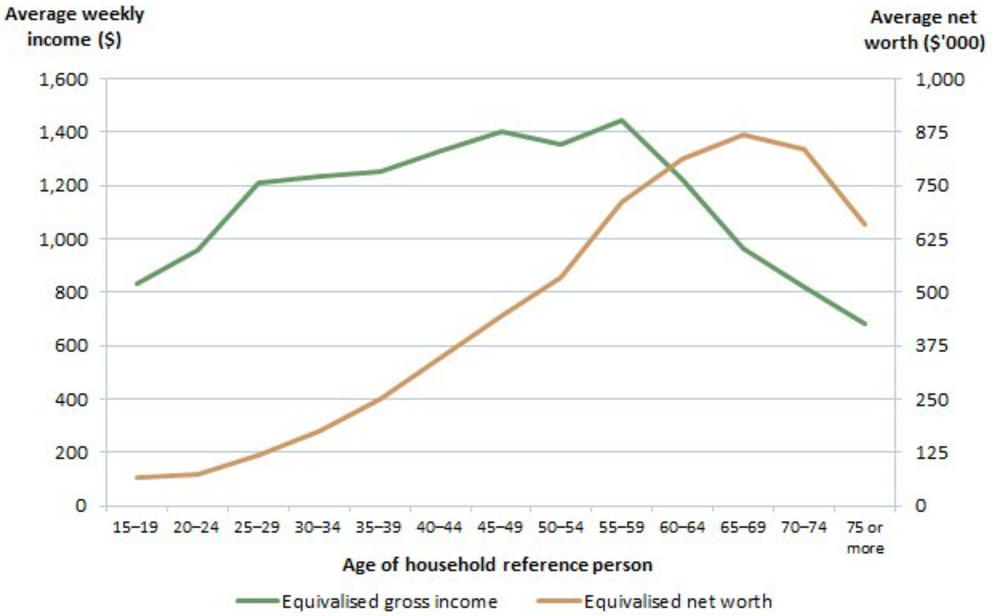
People with stores of wealth (both financial and non-financial assets) can use these to maintain a comfortable standard of living, despite having a lower income. On the other hand, people with low reserves of wealth may face financial difficulty in times of need, such as during any period of reduced income or if they have substantial unexpected expenses.

Owning a home outright, receiving subsidised rent, or receiving free or subsidised goods and services from the government, can also impact significantly on the economic wellbeing of households.

Income and wealth levels generally vary over people's lives and are affected by two main factors: (1) their age and their employment situation. Incomes tend to grow until middle age, when labour force participation and earning capacity is at its peak, and decline in older age as people transition out of the paid workforce; (2) wealth tends to be gradually accumulated during the working lives of household members and can then be used during retirement (Graph 2).

Due to the importance of wealth, this article examines the economic circumstances of low income households with a reference person under 65 years ('younger' households), compared with couple and lone person households with a reference person 65 years and over ('older' households).

Graph 2 ALL HOUSEHOLDS, Equivalised household income & wealth, 2013-14



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Source(s): *ABS Survey of Income and Housing*

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Summary

Wealth and Debt

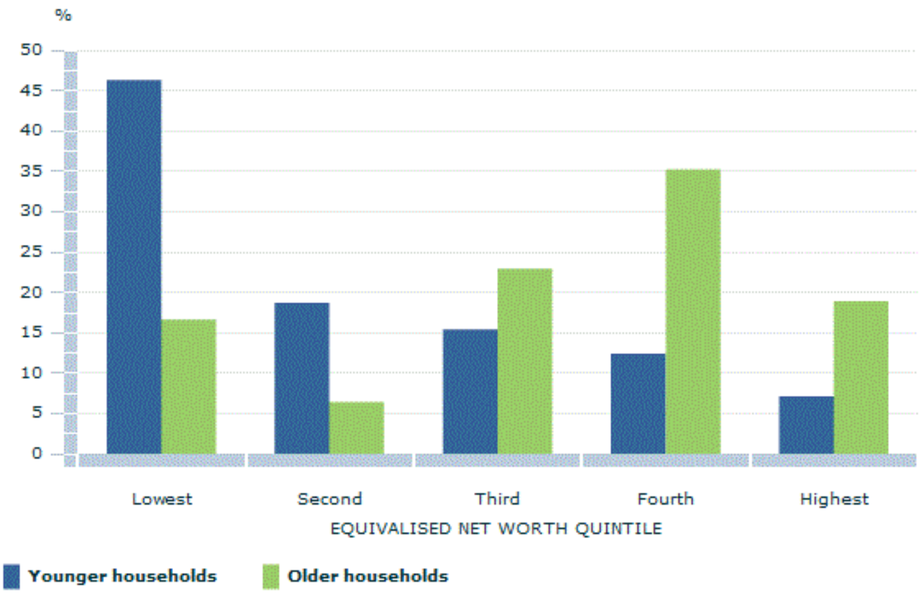
WEALTH AND DEBT

Wealth (or net worth) tends to be accumulated during people's working lives, and can be drawn upon to support consumption when income is reduced, such as between jobs or in retirement.

TOTAL WEALTH

In 2013-14, almost two-thirds (65%) of people in younger low income households had wealth levels in the lowest two equivalised net worth quintiles, compared with 23% of people in older households. In comparison, over half (54%) of people in older low income households had wealth levels in the top two wealth quintiles for the total population, compared to one-fifth (19%) of younger households (Graph 1).

Graph 1 PEOPLE IN LOW INCOME HOUSEHOLDS, Equivalised net worth quintiles, 2013-14



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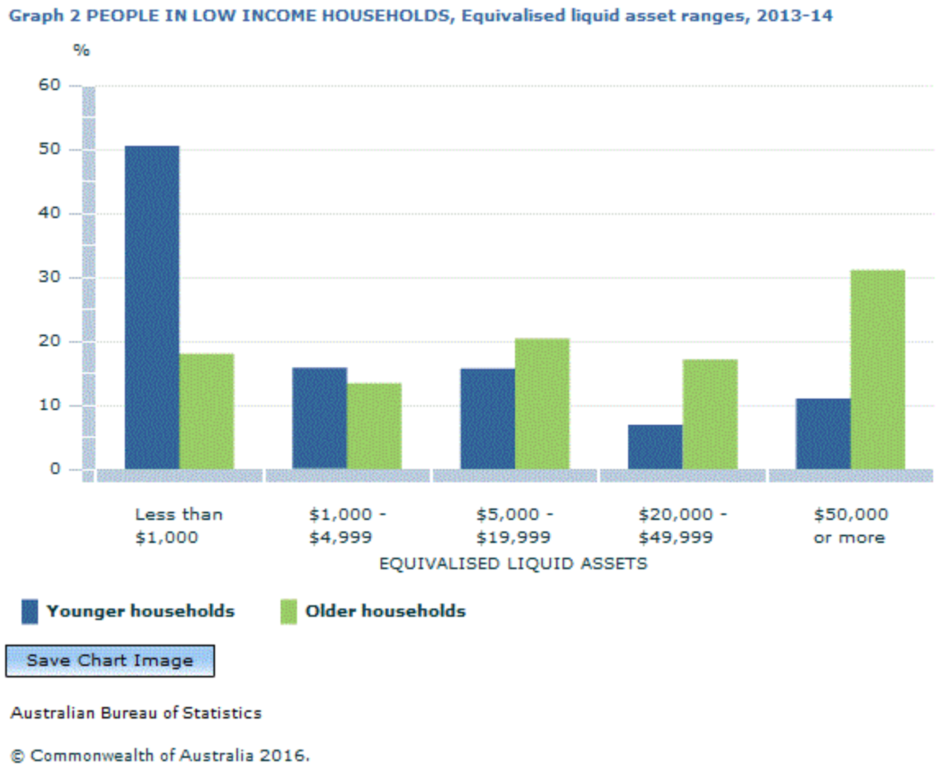
***Source(s):** ABS Survey of Income and Housing*

Source(s): ABS Survey of Income and Housing

LIQUID ASSETS

Non-financial assets, such as property, are the most valuable assets owned by both younger and older households, but are not easily converted to cash to support increased consumption needs. Liquid assets such as bank deposits and shares can be more easily converted to cash to supplement incomes when required.

Graph 2 shows that in 2013-14, just over half (51%) of people in younger low income households had total equivalised liquid assets worth less than $1,000, and a further 16% had less than $5,000. In comparison, approximately one-third (31%) of older people lived in low income households with less than $5,000 in liquid assets (equivalised), while one-third (31%) had $50,000 or more.



***Source(s):** ABS Survey of Income and Housing*

Source(s): ABS Survey of Income and Housing

DEBT

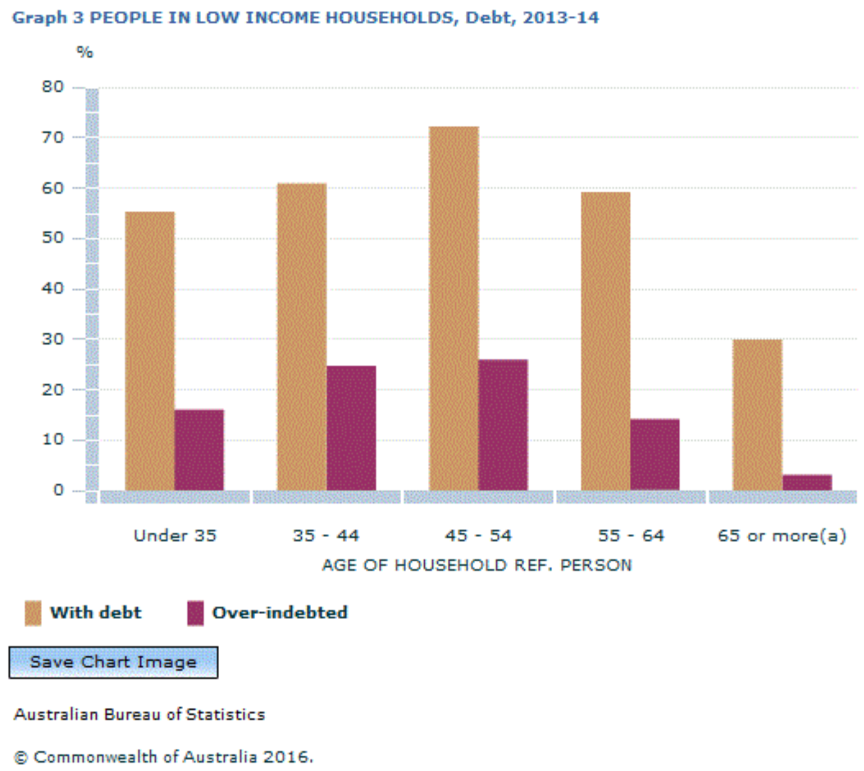
Credit card debt was the most frequently reported debt for both younger and older low income households (37% and 26%, respectively). For households with credit card debt, the average amount of debt was higher for younger low income households ($4,200) than older ones ($2,800).

The largest liability for low income households was their home loan. Just over one-quarter (27%) of younger households were owner-occupiers with a mortgage, with their home loans averaging $178,000. Relatively few older households (6%) still owed money on their home mortgage.

Levels of debt relative to income are important in understanding the economic wellbeing of individual households. The OECD has suggested that households with debt three or more times higher than their annual income are over-indebted and may be at high risk of experiencing problems if there are any financial shocks, such as a sudden rise in interest rates or a reduction in income.

Very few older households (3%) were over-indebted in 2013-14, whereas over 20% of younger households were over-indebted, peaking at 26% of households in the 45 to 54 year age range (Graph 3).

Two in three younger households with a mortgage and two in five older households with a mortgage, were over-indebted, that is the value of their debt was three or more times their annual income.



Footnote(s): *(a) Couples and lone person households only*

Source(s): *ABS Survey of Income and Housing*

Footnote(s): (a) Couples and lone person households only

Source(s): ABS Survey of Income and Housing

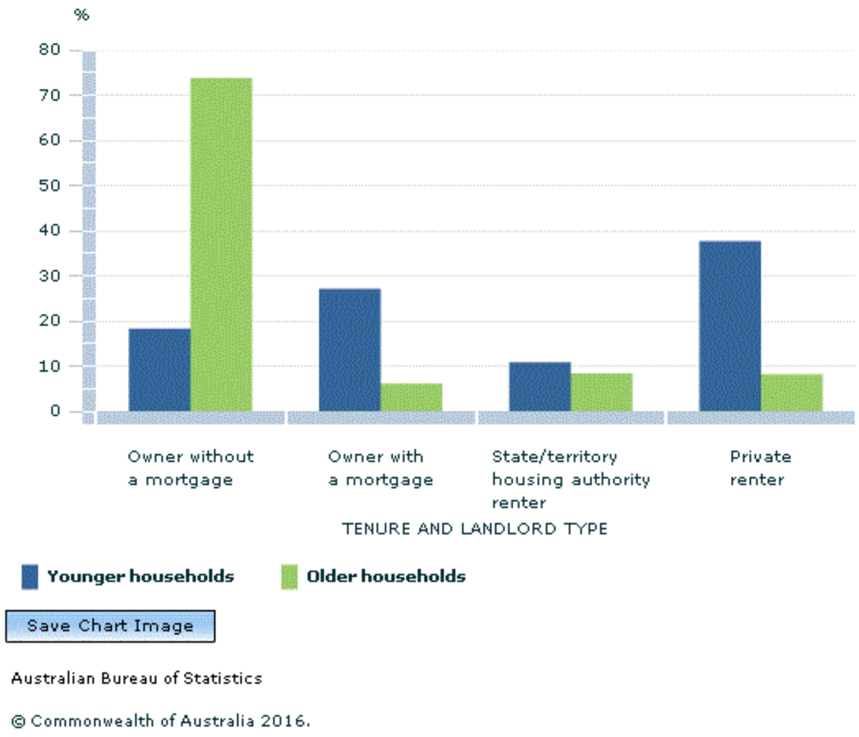
Housing Costs

HOUSING COSTS

Housing costs are often the largest regular expense for households. These costs directly affect the amount of income available to meet other living costs.

In 2013-14, almost three-quarters (74%) of older low income households owned their home outright compared with less than one-fifth (18%) of younger households. The majority of people in younger low income households were either private renters or owners with a mortgage (65%). In contrast, 8% of older low income households were private renters, and 6% were owners with a mortgage (Graph 1).

Graph 1 PEOPLE IN LOW INCOME HOUSEHOLDS, Tenure & landlord type, 2013-14



Source(s): ABS Survey of Income and Housing

Source(s): ABS Survey of Income and Housing

These higher home ownership rates for older households contributed to their average weekly housing costs being significantly lower than those of younger households ($106 and $216, respectively). Average housing costs were highest for younger households with a mortgage or renting privately (Graph 2).

Footnote(s): *(a) Includes other renters and other tenure types*

Source(s): *ABS Survey of Income and Housing*

Footnote(s): (a) Includes other renters and other tenure types

Source(s): ABS Survey of Income and Housing

The financial benefits a household receives from home ownership or paying subsidised rent can also be analysed by comparing an imputed market rent for their home and the actual housing costs they pay. The difference is called net imputed rent. It is nil for market renters and can be either positive or negative for other tenure types. For the latter, this will depend on whether their housing costs are higher or lower than the market rent that has been imputed for their home.

If net imputed rent is added to disposable household income, more meaningful comparisons of the total economic circumstances of different tenure types can be undertaken. Table 1 shows the impact of defining the low income population using this alternative income measure including net imputed rent. The proportion of the low income population that had a household reference person under 65 years would increase from 69% to 81%.

Table 1. PEOPLE IN LOW INCOME HOUSEHOLDS, Before and after including imputed rent in income, 2013-14

Age of household reference person	Equivalised disposable household income	Equivalised disposable household income (incl. net imputed rent)
	PROPORTION OF PERSONS IN HOUSEHOLDS (%)	
Under 65 years	69	81
65 years and over	31	19
Total low income households	**100**	**100**

Source: ABS Survey of Income and Housing

Financial Stress Indicators

FINANCIAL STRESS INDICATORS

Financial stress indicators are an alternative method of considering whether households may be experiencing economic hardship. These indicators however, cannot identify whether their financial stress has been impacted by their spending choices. Table 1 lists experiences of financial stress and missing out which were last collected in the 2009-10 Household Expenditure Survey.

Table 1. EXPERIENCES OF FINANCIAL STRESS AND MISSING OUT IN THE LAST 12 MONTHS

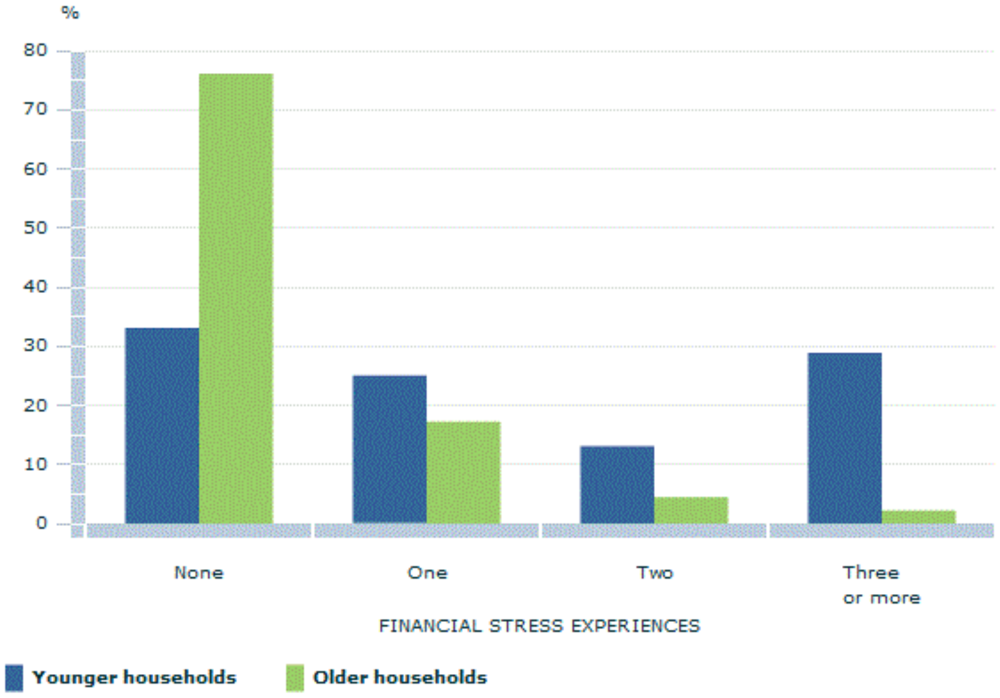
Financial stress experiences	Missing out experiences
• Unable to raise $2000 in a week for something important • Spend more money than received • Could not pay gas, electricity or telephone bill on time • Could not pay registration or insurance on time • Pawned or sold something • Went without meals • Unable to heat home • Sought assistance from welfare/community organisations • Sought financial help from friends or family	• Could not afford holiday for at least one week a year • Could not afford a night out once a fortnight • Could not afford friends or family over for a meal once a month • Could not afford special meal once a week • Could only afford second hand clothes most of the time • Could not afford leisure or hobby activities

Source: ABS Household Expenditure Survey (6530.0)

In 2009-10, younger households reported substantially more experiences of financial stress and missing out, than older households. The majority of older households reported none of the financial stress experiences (76%) or the missing out experiences (61%), listed in table 1. By comparison, about 70% of younger households reported at least one of each of these experiences in the previous 12 months.

Three or more financial stress experiences were reported by 29% of younger low income households and about 2% of older low income households. Younger households also more frequently reported three or more missing out experiences (44% compared to 16% of older households) (Graph 1).

Graph 1 PEOPLE IN LOW INCOME HOUSEHOLDS, Experiences of financial stress & missing out, 2009-10



Financial stress indicator

EXPERIENCES OF FINANCIAL STRESS ▼

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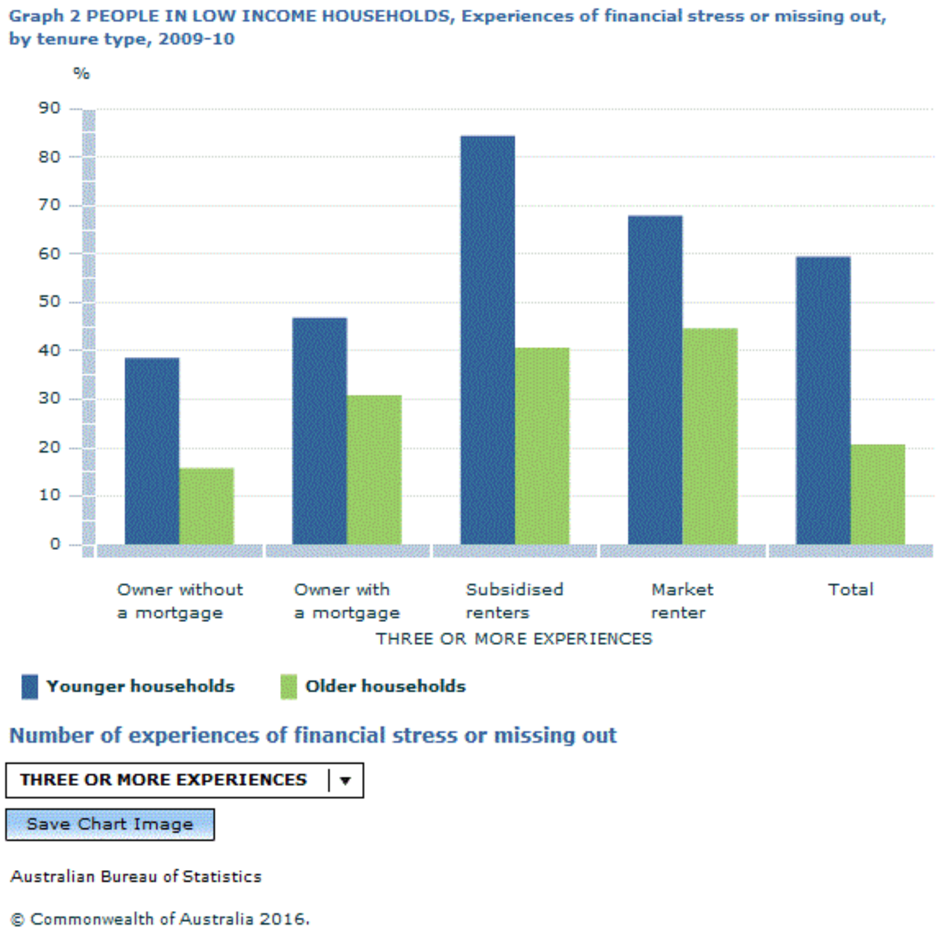
Source(s): *ABS Household Expenditure Survey*

Source(s): ABS Household Expenditure Survey

There was a strong relationship found between financial stress and tenure type. Younger low income renters, both market renters and those in subsidised rental properties, most frequently reported three or more experiences of financial stress or missing out (68% and 84%, respectively). In comparison, around 40% of older low income renters reported three or more of these experiences (Graph 2).



Source(s): *ABS Household Expenditure Survey*

Source(s): ABS Household Expenditure Survey

Importance of Government Assistance

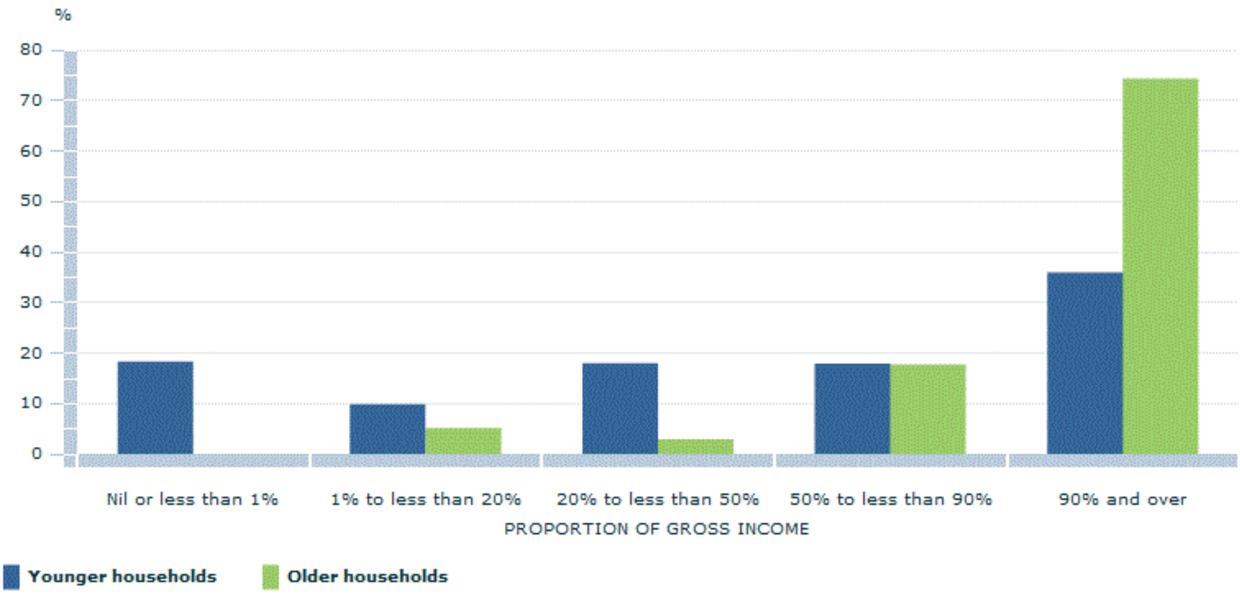
IMPORTANCE OF GOVERNMENT ASSISTANCE

The government provides two types of assistance to individuals and families in Australia. Firstly, it provides cash support in government pensions and allowances, such as the age pension and family tax benefit. Secondly, it provides goods and services free or at subsidised prices (such as health and education services). Such goods and services are collectively called social transfers in kind (STIK). Through means testing, much of this government assistance is targeted to those most in need of financial support.

In 2013-14, older low income households were more reliant on government pensions and allowances than younger households. Three-quarters (74%) of people in older low income households received at least 90% of their cash income from government payments (mainly age pensions), compared with 36% of younger low income households (Graph 1).

Almost one-third (28%) of people in younger low income households received less than 20% of their gross household income from government payments, compared with 5% of people in older low income households.

Graph 1 PEOPLE IN LOW INCOME HOUSEHOLDS, Contribution of government pensions & allowances to household income, 2013-14



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Australian Bureau of Statistics

***Source(s):** ABS Survey of Income and Housing*

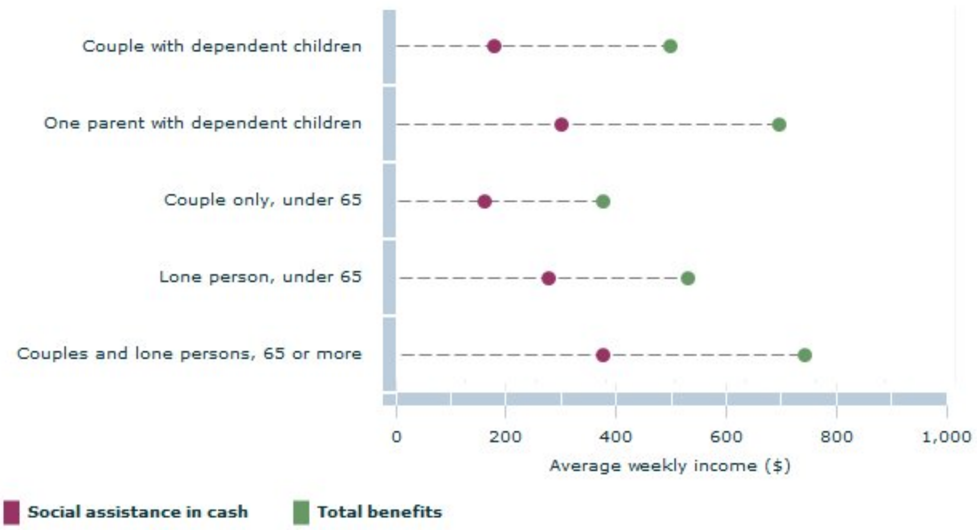
Source(s): ABS Survey of Income and Housing

The amount of government support provided to low income households varies between households, with characteristics such as life cycle stage, household size, and income, influencing the amount of government support provided.

Of people in low income households, those in older households received the highest average weekly amounts of total equivalised social assistance benefits ($744), comprising $377 in cash benefits and $367 from social transfers in kind. The latter were mainly from government provision of health ($273) and community welfare services ($76).

Low income one parent families with dependent children received the second highest levels of government support (averaging $699 per week). Health ($216) and education ($89) services were the highest average weekly social transfers in kind received by these households (Graph 2).

Graph 2 PEOPLE IN LOW INCOME HOUSEHOLDS, Equivalised government benefits, selected household groups, 2013-14

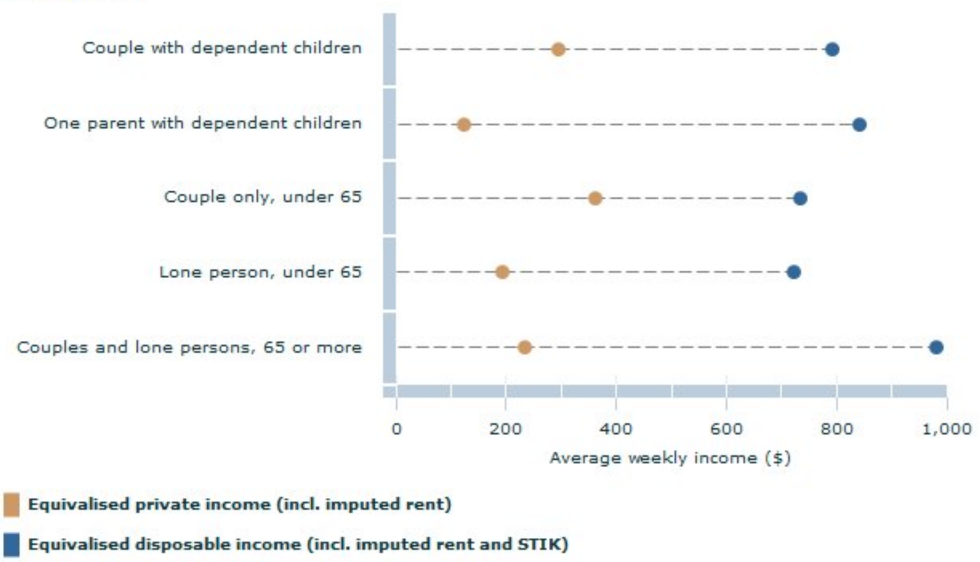


Australian Bureau of Statistics

Source(s): *ABS Survey of Income and Housing*

In 2013-14, government assistance increased the average equivalised household income of older low income households from $233 to $982 per week. Low income one parent families with dependent children had the lowest average equivalised income from non-government sources, but government support, in cash and in-kind, increased their equivalised household income to an average of $842 per week (Graph 3).

Graph 3 PEOPLE IN LOW INCOME HOUSEHOLDS, Equivalised household income, selected household groups, 2013-14



Australian Bureau of Statistics

Source(s): *ABS Survey of Income and Housing*

The impact of including social transfers in kind in household income can also be shown by comparing the composition of low income households determined using broader income measures. In 2013-14, when social transfers in kind are included in the income measure, the proportion of the low income population living in households 65 years and over, fell to 15%, while younger households comprised 85% of the low income population (Table 1).

Table 1. PEOPLE IN LOW INCOME HOUSEHOLDS, Before and after including imputed rent and STIK,

2013-14

Age of household reference person	Equivalised disposable household income	Equivalised disposable household income (incl. net imputed rent)	Equivalised disposable household income (incl. net imputed rent and STIK)
	PROPORTION OF PERSONS IN HOUSEHOLDS (%)		
Under 65 years	69	81	85
65 years and over	31	19	15
Total low income households	**100**	**100**	**100**

Source: ABS Survey of Income and Housing

Definitions and Related Information

DEFINITIONS AND RELATED INFORMATION

DEFINITIONS

The Explanatory Notes tab of this publication provides a Glossary and other information about key terms used in this feature article.

More detailed information is provided in the Survey of Income and Housing User Guide, 2013-14 (cat. no. 6553.0).

Equivalisation
Household income and wealth estimates have been equivalised using the same equivalence scale.

Equivalisation is a method of standardising income and wealth of households to take account of household size and composition differences. This enables more meaningful comparisons to be undertaken across different households.

An equivalising factor is used which assigns a value of 1 to the household head, 0.5 to each additional person 15 years or older and 0.3 to each child under 15 years. For example, a couple with one child under 15 years would have an equivalising factor of 1.8 and therefore need an income of $1,800 to have the same equivalised income as a lone person household with an income of $1,000.

Housing costs
For owner-occupiers, housing costs are those that would normally be paid by a landlord, i.e. mortgage interest, general and water rates, building insurance, body corporate fees, and repairs and maintenance.

For renters, housing costs are actual rent paid.

Liquid assets
Liquid assets are those that can be readily accessed to support consumption needs. This includes all financial assets such as bank accounts, shares, and the value of people’s own businesses. Superannuation is included in the liquid assets of individuals 65 years and over, but is excluded from the liquid assets for people under 65 years, as they cannot usually access this asset until retirement age.

Low Income Households
Low income households are those with equivalised disposable household income (EDHI) in the 3rd to 20th percentiles of the total population. In 2013-14, this equated to households with EDHI ranging from $205 to $511 per week.

In this analysis, all characteristics such as wealth levels, tenure type and financial stress indicators, are based on the circumstances of the entire household. However, the proportions cited are based on the number of people in the population of interest rather than the number of households. This means a household with four people contributes four times more to the proportions quoted than a household with one person. This method is used because in inequality studies, the number of people at risk of economic hardship is of most interest, but also recognises that people share household resources. These are ‘person weighted’ estimates.

Over-indebted households
High debt levels can leave households vulnerable to financial hardship if their economic circumstances change. Consistent with the OECD definition, over-indebted households are defined as those with debt three or more times their annual current disposable household income.

Poverty measures
Many developed countries use relative income poverty to measure the economic wellbeing of households. These measures identify the proportion of people living in households with an income below a certain fraction of the median equivalised disposable household income for all households. The OECD commonly uses 50% of median income in its poverty studies, while the European Union often uses 60% as the cut-off.

Younger and older households
Low income households have been split into two different groups in this article:

- *Younger households* are those with a household reference person under 65 years, accounting for 69% of low income households
- *Older households* are couples and lone person households with a household reference person 65 years and over, accounting for 27% of low income households.

Other households with a reference person aged 65 and over have been excluded (about 4% of the low income population) so that the economic resources of additional people, such as non-dependent children, do not distort the analysis of older households.

However, younger households may include individuals 65 years and over, while older household couples may include a person under 65 years, because they are not the household reference person.

RELATED INFORMATION

The following papers provide further analysis on the importance of the joint analysis of income, consumption and wealth:

- Low Economic Resource Households, Feature Article, Household Income and Income Distribution (cat. no. 6523.0), 2011-12
- Government pension and allowance recipients, Feature Article, Household Expenditure Survey (cat. no. 6530.0), 2009-10
- Trends in Household Debt, Australian Social Trends (cat. no. 4102.0), 2014
- What types of debts do households have?, Australian Social Trends (cat. no. 4102.0), 2014
- Who has household debt?, Australian Social Trends (cat. no. 4102.0), 2014

The Household Economic Wellbeing Fact Sheet Series provide a broad overview of the key concepts and data sources for measuring household economic wellbeing. There are currently five fact sheets:

- What is household economic wellbeing?
- Understanding measures of income and wealth
- Low economic resource households
- Key data sources
- Changes over time

The fact sheets are also available for download.